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SUBJECT: FLURRY OF FRENCH CLIMATE CHANGE INITIATIVES

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¶1. Summary: To reach Kyoto Protocol commitments, the government of France recently announced:

-- Its updated 'National Plan' to fight climate change (PNLCC) aimed at saving an extra 6 to 8 million tons equivalent CO2 per year (MtCO2) for the period 2008-2010.

-- In the context of the EU Emissions Trading Scheme (ETS), a stricter CO2 plan (132 MtCO2 instead of 155 MtCO2) for capping emissions in the industrial sector during the period 2008-2012 will be resubmitted to the European Commission before end-2006.

-- A pioneer program, entitled 'Climate and Domestic Offset Projects,' jointly presented by the Finance and Ecology Ministries, aims to stimulate projects reducing GHG emissions in sectors not covered by the ETS by providing financial remuneration for voluntary emissions reduction.

End summary.

Kyoto goals: France on track, so far...

¶2. To comply with the Kyoto Protocol (KP) requirements, France agreed to stabilize its GHG emissions at 1990 levels (567.1 MtCO2) by 2012. France emits about 1.2 percent of GHG worldwide while it represents about 5 percent of world GDP (UN 2004 data). According to recent figures, total French emissions for 2004 approximated 562.6 MteCO2, 0.8 percent under the 1990 level (detailed figures per sector in para 14). Between 1999 and 2004, average French emissions remained 2 percent below the 1990 emission level, with economic growth totaling 25 percent excluding inflation during the same five year period.

New National Plan: Buildings and Transport

¶3. In 2000, French authorities adopted a national climate change control program, known as PNLCC. This plan was revised in 2004, and provides for an additional annual reduction of 33.5 MtCO₂ for the period 2004-2012. It was prepared in tandem with the establishment of a national quota allocation program within the ETS scheme. According to GOF reports based on energy models, France will succeed in reaching its Kyoto objectives. The updated, but not overly ambitious, plan released in November 2006, aimed at assuring "France's (emissions) position, taking into account possible changes in the energy sector." The expected gain is an extra 6-8 MtCO₂/year for the period 2008-2012.

¶4. On the transport side, major measures are designed to improve urban mobility while reducing emissions. The GOF seeks to develop alternatives to road transportation (e.g. urban tram systems), and at the same time accelerate the development and deployment of biofuels. The Transport Ministry is studying/(repeat studying only at this point) the possibility of introducing urban tolls (so far forbidden in France) and a truck tax on vehicles to "re-adjust" road transportation in environmentally sensitive areas (e.g. crossing of the Alps).

¶5. The updated plan includes regulatory measures and fiscal incentives to exploit emission savings in older commercial and residential buildings. The tax incentive for investments contributing to energy efficiency in buildings will be increased from 300 million euros in 2006 to 1 billion euros in 2007. From 2007, significant renovations in buildings more than 1000 square meters will need to meet minimum energy requirements.

Ratcheting down on industrial polluters...

¶6. The revised PNLCC also includes measures to tighten pollution taxes with a 10 percent increase in taxation of industrial and air

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transport pollution and the creation, in 2007, of a coal tax. Coal powered energy (of which there is very little in France) will be subject to a levy of 1.19 euros per megawatt hour of energy consumption. Industrial groups that already benefit from an "environmental (exemption) certification" will not be affected by these new taxes.

The 'other' category...

¶7. France also intends to examine with European partners the possibility of imposing a "carbon tax" on imports of industrial goods from countries not part of international efforts (Kyoto Protocol-like efforts) to cut greenhouse emissions after 2012. Senior French officials have said the GOF plans to submit a proposal for study to the EU and other European countries along these lines in early 2007. (This topic has been discussed in separate Embassy reporting. See, e.g., Paris 7584.) France further wishes that the EU study the possibility of a CO₂ quota scheme for goods transportation and plans to provide Brussels with a memorandum outlining its vision before the end of March 2007.

EU Emissions-Trading: Paris lowers quota plan

¶8. Launched in 2005, the ETS is the cornerstone of the EU's efforts to fight climate change and meet KP goals. The ETS fixed an opening price for carbon and outlines how much CO₂ industries in each EU member covered by the scheme can emit. It includes two phases: 2005-2007 and 2008-2012. Some 1,100 French facilities - out of 11,400 in Europe - belonging to the most energy-consuming industrial sectors (refining, electric power, cement, steel, paper, etc.) are targeted. They represent roughly one-fourth of France's total GHG emissions. (Note: Authorized emissions for France under the first Emissions Trading Scheme period are 156 MtCO₂/year; France's actual 2005 emissions in the covered sectors were 131 MtCO₂.)

¶9. Claiming that national governments did not press hard enough in the first phase (as they handed out more permits than needed, for example, so that the price of emission permits plummeted in 2006), the European Commission recently announced that it would not accept overly generous CO2 plans for the second phase. Accordingly, Paris withdrew its initial proposal of 155 MtCO2/year in late November given Commission indications that it would be rejected as too weak. (Note: France is not the only "bad pupil:" the Commission has examined 10 proposals thus far for the period 2008-2012, accepting only the UK's without insisting on changes. End note.) France told Brussels on December 13 that its amended National Allocation Plan proposal to the Commission would be 132.8 MtCO2/year, a substantial proposed reduction in GHG emissions in the covered sectors. France also decided not to permit the transfer of quotas not used during the first period to the second period, a decision highlighted by the Ecology Ministry as a significant gesture for environmental interests.

France pioneers domestic offset projects to fight CO2

¶10. France also has launched a new initiative, outside the PNLCC, to fight GHG emissions at the domestic level in sectors not covered by the ETS. These sectors, such as transport, agriculture, buildings, and small industries, are responsible for the majority of France's GHG emissions, often characterized as "diffuse" emissions. The concept of domestic offset projects (DOPs) consists in applying at the national level the logic of the joint implementation mechanism defined for international projects under the KP by crediting GHG emission reductions for projects conducted by smaller emitters within France.

¶11. According to the government, this initiative, a first in Europe, can close gaps between other emissions reduction policies and motivate larger numbers of actors (often at local levels) in many sectors not covered by the ETS program. Jointly presented by the Finance/Industry and Ecology Ministries, this proposal has received positive feedback from environmental groups. To be recognized as DOPs, however, these projects must demonstrate that

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they would not have occurred within existing incentive measures ("additionality" criteria, sometimes difficult to assess) and they must lead to emission reductions which can be posted to the national GHG inventory.

¶12. This initiative will be placed under the supervision of the 'Caisse des Depots et Consignations' (CDC), a state-owned financial institution that performs public-interest missions on behalf of France's central, regional, and local governments. CDC will be committed to buy the CO2 "permits" corresponding to avoided emissions (1 permit = 1 ton GHG) at a price determined in advance. Pooling of projects - notably in the agricultural sector - will be encouraged and CDC will help aggregate individual initiatives and handle administrative procedures. CDC has agreed to purchase up to 5 MtCO2 for the period 2008-2012, which should further help France to reach its overall KP goal under the EC scheme. The first call for projects is expected to take place in early 2007. We expect the implementation of this new system to be closely monitored by other EU members.

¶13. Comment: As France moves deeper into its presidential election season, there is more and more discussion by government figures and presidential hopefuls about the environment, especially climate change. It is not all 'hot air.' Given the French electorate's interest in climate change, we expect the trend of generating new environmental initiatives to continue for the foreseeable future. End Comment.

France's GHG emissions: Evolution 1990-2004

¶14. Breakdown per sector:

Sector	Evolution 1990-2004	% total emissions 1990	% total emissions 2004

Transport	+ 22.7%	21.4%	26.5%
Building	+ 22.3%	15.7%	19.3%
Manufacturing Industry	- 21.6%	25.2%	19.9%
Agriculture/ Forestry	- 10.5%	20.9%	18.9%
Energy Industry	- 9.1%	13.9%	12.8%
Waste Sector	- 9.5%	2.8%	2.6%
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